

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 28, 2005

IN RE:

**PETITION OF KNOLOGY, INC. AND KNOLOGY OF
TENNESSEE, INC. FOR FINANCING APPROVAL**

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**DOCKET NO.
05-00217**

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Chairman Ron Jones, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 12, 2005, for consideration of the *Petition of Knology Inc. and Knology of Tennessee, Inc. for Financing Approval* (the "*Petition*") requesting approval, pursuant to Tenn. Code Ann. § 65-4-109 (2004), of the financing transactions set forth in the *Petition*.

Statutory Framework

Tenn. Code Ann. § 65-4-109 (2004) provides as follows:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the [TRA] for such proposed issue. It shall be the duty of the [TRA] after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the [TRA].

Pursuant to this statutory authority, the TRA must determine whether the proposed financing transactions are in accordance with law and the stated purpose meets with the TRA's approval.

The Petition

Knology, Inc. (the “Parent”) is a holding company formed under the laws of Delaware and based in West Point, Georgia. In addition to its incumbent local exchange carrier businesses in Georgia and Alabama, the Parent, through its subsidiaries, has competing local exchange carrier (“CLEC”) operations in several states, including Tennessee.

Knology of Tennessee, Inc. (“Knology-Tennessee”) is a Tennessee certificated CLEC¹ and a wholly-owned subsidiary of the Parent. Knology-Tennessee provides local and long distance telephone services in the Knoxville, Tennessee area.

In the *Petition*, filed on August 3, 2005, the Parent and Knology-Tennessee (together the “Petitioners”) request approval for Knology-Tennessee to participate, along with the other subsidiaries of the Parent, in loan transactions in which the Parent entered into a First Lien Credit Agreement and a Second Lien Credit Agreement (collectively the “Credit Agreements”).

The *Petition* states that the Credit Agreements include three (3) credit facilities (collectively the “Credit Facilities”). The Credit Facilities entered into by the Parent consist of: (1) a 5-year First Lien Revolving Credit Facility for \$25 million; (2) a 5-year First Lien Term Loan; and (3) a 6-year Second Lien Term Loan. The aggregate amount of the First Lien Term Loan and the Second Lien Term Loan is \$283,958,333. The total amount of the transactions is \$308,958,333.

While the borrower under the Credit Facilities is the Parent, the Credit Facilities are guaranteed by the Parent’s direct and indirect subsidiaries. At this time, there are twenty-two

¹ See *Application of Knology of Tennessee, Inc. to Amend Its Certificate of Public Convenience and Necessity to Provide Telecommunications Services in the State of Tennessee*, Docket No. 04-00092, *Initial Order Granting Amendment to Certificate of Public Convenience and Necessity* (June 10, 2004). Knology-Tennessee was first certificated in Tennessee on May 22, 2000. See *In re Application of Knology of Tennessee, Inc. for a Certificate of Convenience and Necessity as a Competing Telecommunications Services Provider*, Docket No. 00-00058, *Order Granting Certificate of Public Convenience and Necessity* (May 22, 2000).

(22) subsidiaries of the Parent that are guarantors of the Credit Facilities.² The Parent also will secure guarantees from each subsequently acquired domestic and, in certain cases, foreign subsidiary of the Parent.

The First Lien Revolving Credit Facility and the First Lien Term Loan are secured by substantially all of the assets of the Parent and each guarantor. The Second Lien Term Loan is secured on a second priority basis by all of the collateral securing the First Lien facilities.

The lenders under the Credit Facilities consist of a syndicate of banks, financial institutions and other institutional lenders (collectively the “Lenders”). The Administrative Agent for the Lenders is Credit Suisse First Boston.

According to the *Petition*, the proceeds from the Credit Facilities will be used to refinance existing indebtedness, to pay transaction costs associated with the Credit Facilities and to provide liquidity in the form of the \$25 million revolving credit facility. The Petitioners assert that the refinancing will result in an overall reduction in the Parent’s interest expense by \$1.1 million annually.³ The *Petition* states that the transaction will result in a greater cash “cushion” to further enhance the Parent’s and its subsidiaries’ balance sheets and operations.⁴

The Petitioners contend that the transactions are in the public interest because the financing will allow the Parent and its subsidiaries to improve their business operations which, in turn, will foster competition in the telecommunications market.⁵ Additionally, the *Petition* states that the additional resources gained through the transactions will allow the Parent and its

² According to the Petitioners, at the time the Authority heard this docket, Knology-Tennessee had not executed the guarantee or security agreements applicable to the Credit Facilities, and its assets were not subject to liens or security interests under the Credit Facilities unless and until the Authority approved the *Petition* or determined that approval was not required

³ Supplemental Data Response, p 2 (August 31, 2005)

⁴ *Petition of Knology Inc and Knology of Tennessee, Inc for Financing Approval*, p 11 (August 3, 2005).

⁵ *Id*

subsidiaries to respond to competitive pressures and to continue to provide consumers with full facilities-based competitive choices.⁶

September 12, 2005 Authority Conference

At a regularly scheduled Authority Conference held on September 12, 2005, the panel voted unanimously to approve the *Petition* and made the following findings:

1. The proposed transactions are subject to approval pursuant to Tenn. Code Ann. § 65-4-109 (2004).

2. The proposed transactions will affect the assets of Knology, Inc.'s Tennessee subsidiary, Knology of Tennessee, Inc.

3. Petitioners have not alleged that approval of these transactions is required by any federal agency.

4. Tennessee has a legitimate interest in monitoring the integrity of the competitive marketplace, which includes obtaining information on the financial transactions and fitness of certificated telecommunications carriers.

5. The burden of compliance with Tenn. Code Ann. § 65-4-109 (2004) is minimal as such compliance should be perfunctory given the telecommunications industry's movement to a competitive environment.

6. The transactions are being made in accordance with the laws enforceable by the TRA.

7. The purpose of the transactions is in the public interest because, based on the assertions of the Petitioners, the transactions will improve the Petitioners' business operations and service capabilities and provide better access to financial resources.

⁶ *Id*

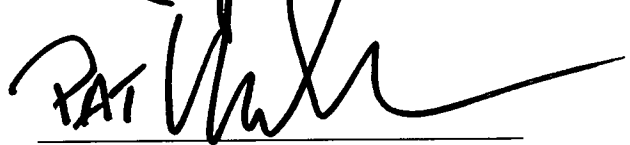
IT IS THEREFORE ORDERED THAT:

1. Knology of Tennessee, Inc. is authorized to participate in the Credit Agreements as requested and described in the *Petition* and discussed herein.

2. The authorization and approval given hereby shall not be used by any party, including, but not limited to, any lending party, for the purpose of inferring that an analysis or assessment of the risk involved to a purchaser has been performed. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof for the transactions approved herein.



Ron Jones, Chairman



Pat Miller, Director



Sara Kyle, Director